THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(SET UP BY AN ACT OF PARLIAMENT)

2024 JANUARY E-NEWSLETTER

THRISSUR BRANCH (SIRC)

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EDITOR'S NOTE

Dear Professional Colleagues,

"The first step towards getting somewhere is to decide you're not going to stay where you are." —J.P. Morgan

A new year a new beginning, a fresh 366 pages book sits right in front of us awaiting to be filled with renewed thoughts, resolutions. The choice is ours whether we want to write the same chapters or new ones.

I sincerely hope this new year helps to bring out the best version of you.

"No matter what job you have in life, your success will be determined 5% by your academic credentials, 15% by your professional experiences and 80% by your communication skills."- Anonymous

Likewise, good communication at the workplace is important in order to ensure that employees have the information they need to perform well, to build a positive work environment and eliminate inefficiencies. It also aids in maintaining healthy workplace relationships.

We extend our gratitude to the entire CA community for your tireless efforts and your commitment to upholding the highest standards of our profession. Together, we continue to navigate the complexities of the financial world, providing invaluable support to individuals and businesses alike.

Thank you for your unwavering support of our journal, and we look forward to bringing you more enriching content in the months ahead.

Hope you enjoy reading the newsletter.

Jai Hind Jai ICAI
Thank you

CA. AJITH KAIMAL R
NEWSLETTER IN CHARGE

CHAIRMAN'S MESSAGE

Dear Professional colleagues,

As we step into the promising horizon of 2024, I am delighted to extend my heartfelt wishes for a year filled with success, growth, and prosperity. It is with great pleasure that I reflect on the enriching programs conducted in the past month, contributing significantly to our collective knowledge and professional development.

One Day Conference - "Jwala 2023" (09.12.2024)
The conference on Digital Transformation in Accounting was a resounding success. We delved into the intricacies of networking guidelines in multi-disciplinary practice and explored opportunities for Chartered Accountants as Independent Directors. Special thanks to our distinguished faculties, CA. Dungar Chand U Jain, CA. G Sekar, and CA. Revathi Reghunathan, for sharing their expertise.

One day Seminar On "Gst" (14.12.2023)
Navigating the complexities of GST, including handling different types of notices and understanding GST9R & 9C, was made easier through the guidance of CA. Rajesh Kumar and CA. Tony M P.

One day Seminar on "RERA and Provisions of Direct Tax & GST on Real Estate Transactions" (16.12.2023)
Organized by the Southern India Regional Council of ICAI, this seminar, inaugurated by P.H. Kurian IAS (RTD), delved into the Real Estate Regulation and Development Act (RERA), practical GST issues for builders, and the direct tax implications on real estate transactions. A heartfelt thanks to P.H. Kurian IAS (RTD), CA. Ganesh Prabhu S, and CA. Prasanth Srinivas for their valuable contributions.

We conducted around 44 hours of CPE seminars in the month of Dec 2023. I extend my gratitude to all the faculties, most importantly, to each one of you who participated in these seminars. Your active involvement is what makes our community vibrant and thriving.

As we look forward to another year of learning and growth, I wish you a prosperous New Year.

Jai ICAI Jai Hind

CA. JEN PAUL
CHAIRMAN

CAPITALISATION OF INTERNALLY GENERATED INTANGIBLE ASSETS

Accounting for intangible assets, particularly those that are generated internally by an entity.

CA. ASHNA P S

Many businesses in the commercial world spend vast amounts of money, on an annual basis, on the research and development of products and services. These entities do this with the intention of developing a product or service that will, in future periods, provide significant amounts of income for years to come. Most companies operating within the IT industry have intangible assets on their balance sheet. Although intangible assets do not have a physical substance, they can be a significant element for companies to be able to operate successfully.

IAS 38 Intangible Assets states that to meet the definition of intangible asset, an item:

- *Lacks physical substance*
- *Is identifiable*
- *Non- monetary*
- *Is controlled by entity*
- *Expected to provide future economic benefits to the entity.*

In addition to complying with the criteria to qualify as an intangible asset and the recognition criteria mentioned above, to assess whether internally generated intangible assets meet the recognition criteria, an entity is required to classify the generation of the assets into 2 phases: Research phase and development phase.

Distinction between Research and Development

IAS 38 defines Research and Development as follows:

'Research' is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Research costs are expensed as they are incurred.

'Development' is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services, before the start of commercial production or use. Development does not include the maintenance or enhancement of ongoing operations.

In view of the above, a company needs to be able to make a distinction between the 2 phases of its projects. The costs attributable to activities that fall under the research phase (as defined above), need to be accounted for as an expense. On the other hand, anything that qualifies as development could be capitalised.

Should the company not be in a position to distinguish between the 2 phases of its internal project to create the intangible asset, all the expenditure incurred on the project needs to be treated as if it was incurred in the research phase and hence expensed when incurred.

Recognition criteria for internally generated intangible assets arising from the development phase

1.How the intangible asset will generate probable future economic benefits. Amongst other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is used internally, the usefulness of the intangible asset;

2.Its intention to complete the intangible asset so that it will be available for use or sale. It may be challenging to obtain this evidence since it relies on management's intent;

3.The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. Financial and other resources needed to complete the development are not required to be secured at the start of the project. An entity may be able to demonstrate its ability to secure these resources through business plans and external financing plans in which potential customers, investors or lenders have expressed interest;

4.Its ability to use or sell the intangible asset;
5.The technical feasibility of completing the intangible asset so that it will be available for use or sale. The recognition criterion of technical feasibility is very subjective and relies also on management's intent;
6.Its ability to reliably measure the expenditure attributable to the intangible asset during its development. The Company would require an appropriately equipped costing system (including for example a time keeping system if the entity's human resources are being used in the asset's development) to reliably determine the cost of production.

Cost of internally generated intangible assets

On initial recognition, an intangible asset should be measured at cost if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. The cost of an internally generated intangible asset includes the directly attributable expenditure of preparing the asset for its intended use. Expenditure on training activities, identified inefficiencies and initial operating losses is expensed as it is incurred. The capitalisation cut off is determined by when the testing stage of the software has been completed and the software is ready to go live. Costs incurred after the final acceptance testing and launch have been successfully completed, should be expensed.

Treatment of capitalised development costs

Once development costs have been capitalised, the asset should be amortised in accordance with the accruals concept over its finite life. Amortisation must only begin when commercial production has commenced (hence matching the income and expenditure to the period in which it relates).
Each development project must be reviewed at the end of each accounting period to ensure that the recognition criteria are still met. If the criteria are no longer met, then the previously capitalised costs must be written off to the income statement immediately.

Conclusion

It is very challenging for accounting for intangible assets, particularly those that are generated internally by an entity using its own in-house resources. Certain aspects of the recognition process can be subjective as they inherently depend on management's intent. Other aspects of measurement can be judgmental and may need to rely on robust data capturing systems and sound controls. Therefore management should adequately address all these aspects are in a timely manner before deciding on to capitalise or expense off.

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